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SUBJECT: AUSTRIA'S STEYR-MANNLICHER WEAPONS COMPANY -- NEW
OWNERSHIP, NEW POLICIES

REF: 06 VIENNA 3028 AND PREVIOUS

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¶1. (SBU) SUMMARY. EconPolCouns and EconPolOffs visited the new CEO and owner of Steyr-Mannlicher, Franz Holzschuh, on April 26. We conveyed Post's desire to continue cooperation and keep an open dialog with the firm. We also stressed our ongoing concerns about the firm's sale of assault weapons to Iran and Iranian attempts to supply arms to insurgents. Holzschuh said the sale to Iran was "Fuehrlinger's decision."

He explained that he already has made changes in company policy to increase end-use controls over the firm's military sales. Steyr-Mannlicher is concentrating on marketing its new hunting rifle and its improved pistol. Holzschuh reiterated his desire to cooperate fully with the U.S. He specifically said that he would trace serial numbers, if we needed him to do so. END SUMMARY.

¶2. (SBU) On April 26, EconPolCouns and EconPolOffs visited Franz Holzschuh, the new owner and CEO of Steyr-Mannlicher, at his headquarters in Kleinraming, Upper Austria. (Kleinraming is in a bucolic dale near the town of Steyr, where the massive Steyr Works remain as a monument to post-war industrialization.) Holzschuh's lawyer, Michael Prager, was also present. Holzschuh said he and two Austrian friends purchased the company in January 2007. Holzschuh explained that the purchase made business sense because Steyr-Mannlicher is internationally known for its high quality and technical know-how. Another factor in the purchase, he added, was that the company has not had any legal cases pending against it for over 100 years. There was also a more emotional reason for his interest, Holzschuh admitted. There had been Russian interest in buying the firm, and Holzschuh wanted to help keep the venerable company in Austrian hands. He and his two business partners are Austrian, he said.

Fuehrlinger at Death's Door

¶3. (SBU) Former owner Wolfgang Fuehrlinger had begun looking for a buyer in July 2006, Holzschuh said. It is unclear whether Fuehrlinger knew then that he had stomach cancer, or whether he was simply following through on his repeated threats to sell the company to "anyone" in order to turn a profit. Formally, Fuehrlinger remains an advisor to Steyr-Mannlicher. However, as Holzschuh told us, Fuehrlinger's health has declined rapidly, and he now weighs just 50 kilos (110 pounds). Prager even referred to Fuehrlinger at one point as "dead," before correcting himself by quickly adding "almost."

14. (SBU) Holzschuh is an avid hunter, but he has no previous experience in the arms industry. He has been an investment consultant, specializing in the strategic development of companies. Most notably, he recently brought Starbucks coffee houses to Austria, Germany and Switzerland. (He shocked the local Vienna scene by situating a Starbucks across the street from the famous Sacher Hotel coffee house.)

However, he described the arms industry as "a completely different world." One of Holzschuh's first acts as CEO was to represent Steyr-Mannlicher at the IDEX 2007 arms show in February. He related with bemusement his realization that the slick display tables were facades for curtained back rooms, where one could see only back-lit shadows and heavy cigarette smoke wafting over the dividers as "all the real business got done."

Iran: "Fuehrlinger's Decision"

15. (SBU) We explained that Post has had multiple interactions -- negative ones -- with Steyr-Mannlicher over the past three years on the issue of sales to countries of concern. We expressed Post's desire to maintain an open dialog with the firm's new management. We stressed that the U.S. remains concerned about the repercussions of the sale of HS .50 sniper rifles to Iran. Specifically, we said, whatever the Iranians claimed on their end-user certificates, we do not believe that Iran bought the arms strictly for law enforcement purposes. Citing press reports that Iranian arms had appeared in Afghanistan, we said this sort of connection was just what we had feared. The fact that we could not confirm the presence of Austrian-made weapons did not alleviate our concerns. Holzschuh said the sale to Iran was

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"Fuehrlinger's decision," and, by implication, not something he would have done. He stressed that he had sent a "clear message to the company" that it would tighten up its sales of military and law enforcement items. Among other things, he said the company would henceforth conduct its military and law enforcement sales directly with government entities, cutting dealers out of the process.

Purchase Includes U.S. but Not Malaysian Subsidiary

16. (SBU) Holzschuh said his purchase included Steyr-Mannlicher's U.S. subsidiary, Steyr Arms. This is a distributorship located in Cumming, Georgia, that currently employs eight to nine people. At present, Steyr Arms only imports Austrian weapons for resale, and has no production capacity. (Note: Per reftels, Fuehrlinger had told us that he had been planning to create a production facility in the U.S. if he had been successful in selling the AUG A3 assault rifle to the U.S. military. End note.) We asked how the business activities of the U.S. subsidiary would take shape after U.S. sanctions end in December 2007, but Holzschuh said that would depend on the success of the company's new products. Holzschuh said he and his partners did not purchase the company's Malaysian subsidiary, a production facility that Fuehrlinger had established (as Fuehrlinger himself told us) in order to avoid Austrian and EU restrictions on arms exports. According to Holzschuh, Fuehrlinger said the Malaysian subsidiary was shut down and its licenses were revoked. Holzschuh said he understood that litigation is still pending against the Malaysian subsidiary, but he had no details, since he has no responsibility for that part of Fuehrlinger's former activities.

The Future: High End, High Quality Products

17. (U) Holzschuh discussed his vision for the firm. The company continues to put equal emphasis on its hunting, sporting, and law enforcement weapons divisions. However, it is focussing on improving the quality of its new and existing products and delivering premium products to the market. Holzschuh aid new Steyr products must be innovative and must involve at least two or three new patents. The latest product is the Mannlicher "Luxus" hunting rifle, which entered the market in July 2006. He showed us the rifle, which features a changeable barrel to permit an easy change of caliber. The rifle also includes changeable side plates, encouraging repeated investment in hand-tooled artwork that costs as much as three times the rifle's base price of 2100 Euros. The company has received over 1000 orders for the new rifle, Holzschuh said. The success of the rifle is mainly responsible for the expansion of the workforce at Steyr-Mannlicher from 100 to 120 employees, Holzschuh said.

18. (U) Steyr-Mannlicher is also hoping to penetrate the law enforcement market with the M-A1 pistol, which appeared three years ago. Holzschuh claimed it was the best pistol in the world. Holzschuh said the Finnish police had requested a service weapon that would remain absolutely safe in the holster, but that would be immediately useable even by inexperienced officers if necessary. The M-A1 therefore incorporates a safety release inside the trigger guard, along with a safety incorporated into the dual-action trigger of the sort that comes on handguns such as the Glock.

Comment

18. (SBU) Holzschuh was clearly eager to distance himself and the company from Fuehrlinger's risky business practices. He did not speak negatively of Fuehrlinger -- he credited his predecessor with turning a failing, post-privatization behemoth into a modern, competitive enterprise. However, he obviously did not agree with "Fuehrlinger's decision" to sell sniper rifles to Iran. Holzschuh appears to be implementing many new company policies that would decrease the possibility of diversion of Steyr military weapons, most obviously by eliminating dealers from sales of such weapons. Holzschuh was adamant about his intention to cooperate fully with the U.S., especially if the need to check a serial number were to arise. In such a case, Holzschuh promised, the USG would get an immediate answer -- "just call," he said. Post intends to remain in frequent contact with Holzschuh and his firm.
Kilner